



## **Economic Impact Analysis Virginia Department of Planning and Budget**

---

### **12 VAC 30-80 –Methods and Standards for Establishing Payment Rates-Other Types of Care**

#### **Department of Medical Assistance Services**

December 17, 2004

---

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

Pursuant to recommendations of the Work Group formed by the Governor's Executive Directive 2 issued on March 3, 2004, the proposed regulations increase Medicaid and Family Access to Medical Insurance Security reimbursements by 34% for obstetrical and gynecological (OB/GYN) physician services. Also, pursuant to Item 326 JJJ of the 2004 Acts of the Assembly, the proposed regulations increase Medicaid reimbursement by 2% to physicians delivering services in hospital emergency rooms. Both of the proposed permanent changes have been in effect since September 2004 under emergency regulations.

### **Estimated Economic Impact**

In March 2004, the Governor formed a Work Group to investigate barriers to access in rural areas to prenatal, obstetrical, and labor and delivery services in the Commonwealth.<sup>1</sup> Item 298 of the 2004 appropriation act also mandated the Secretary of Health and Human Resources

to report on the availability of obstetrical services in the Commonwealth and the areas where there is inadequate access to such services. The Secretary of Health and Human Resources issued its interim report on July 1, 2004 and the final report on October 29, 2004 to meet both the Executive Directive and the Appropriation Act requirements.

The interim report identified that four hospitals have cut back on or suspended obstetrical services within the eight-month period since November 2003. The report also found that the crisis in obstetrical care is a growing trend rather than being caused by a loss of a single provider or closure of a single hospital. The interim report contained two preliminary recommendations to relieve some of the immediate pressure on the system, to persuade providers to continue taking Medicaid patients, and to offer evidence that the Commonwealth understands the urgency of the crisis. One of the recommendations was to increase Medicaid obstetrical and gynecological physician fee schedule by 44.91% through emergency regulations. As a response to the preliminary recommendations, Governor issued an emergency regulation on August 12, 2004 to increase Medicaid payments for obstetrical care by 34%, effective September 1, 2004. The proposed changes will make the emergency regulations permanent.

The estimated total fiscal impact of the proposed 34% rate increase is \$14.9 million in FY 2005 and \$18.3 million in FY 2006. Approximately one half of these amounts is financed by the state and the rest by the federal government. The Medicaid rates for OB/GYN services have been relatively steady for the last several years. The main economic benefit is to improve the Medicaid recipients' access to OB/GYN services compared to what it would be in the absence of this rate increase. Approximately four hospitals have suspended or cut back on these services since November 2003. The proposed rate increase is likely to provide incentives to current providers to maintain their participation in the Medicaid program and as well as to provide incentives to participate to those who are not currently providing services to Medicaid recipients. The expected impact could be quite significant as Medicaid pays for about 35% to 40% of the 100,000 babies delivered in Virginia every year.

Secondary benefits are likely to result from improved access. Improved access means less distance pregnant women travel to deliver a baby. This could provide expecting families and the state valuable economic benefits. Improved access also means reduced utilization of

---

<sup>1</sup> Commonwealth of Virginia, Office of the Governor, Executive Directive 2.

emergency rooms for deliveries, which is a much more costly setting for healthcare. Improved access to OB/GYN services also produces better clinical outcomes, which reduces the cost of health care later. According to the Secretary's report, neonatal intensive care is as much as fifty times more expensive than a birth with no complications. Healthy births further improve one's ability to learn, productivity, and quality of life in general. Federal matching funds make it possible to realize all of these benefits at one half the price.

The other proposed change increases the emergency room physician rates by two percent for five evaluation and management codes. The estimated fiscal impact of this change is a \$280,604 increase in Medicaid physician payments in FY 2005 and a \$297,438 increase in FY 2006 and approximately the same amount thereafter. Similar to the OB/GYN services, improvement in access to emergency room services and improvement in quality of care are expected. These impacts could also generate an improvement in the health status of those who uses these services and provide secondary economic benefits not only to people who utilize the services, but also to the Commonwealth. And, all of these benefits could be realized at one half the price because of the federal matching funds.

## **Businesses and Entities Affected**

The proposed regulations will affect the physicians and other practitioners providing OB/GYN and emergency room services. The number of physicians and practitioners that could be affected by the proposed rate changes is not known.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth. However, Medicaid recipients in rural areas could have been experiencing relatively more difficulty in accessing OB/GYN services, and therefore may benefit proportionally more than their urban counterparts.

## **Projected Impact on Employment**

The proposed regulations will increase Medicaid reimbursement to a subset of physicians and are expected to provide incentives to them to keep providing services to Medicaid recipients. Thus, a positive effect on employment is expected in terms of avoided reductions or suspensions of related health care services. This employment effect would not only apply to physicians, but also to other supporting professions.

## **Effects on the Use and Value of Private Property**

The proposed regulations are not likely to affect the use and value of real property. However, a positive impact on the utilization and consequently the asset value of affected Medicaid providers is expected.